

DELIVERED THROUGH THE
EXPERT ADVISORY CALL-DOWN SERVICE (EACDS) LOT B:

STRENGTHENING RESILIENCE AND RESPONSE TO CRISES

PRODUCED FOR



ECONOMICS OF ALTERNATIVE EXPENDITURE

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EXPERT ADVISORY CALL DOWN SERVICE – LOT B

STRENGTHENING RESILIENCE AND RESPONSE TO CRISES

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1 INTRODUCTION

In just ten years, the number of displaced people has almost doubled to more than 68 million - some 25.4 million of them refugees. At the same time, more than 80 percent of refugee crises last for more than ten years, two in five more than twenty years. Refugees are now, on average, displaced for over 12 years¹.

This tells us three things:

- > First, there is a need for a truly global response to this shared challenge.
- > Second, that we cannot wait for disaster and crises to hit but must better predict, pre-empt, mitigate and – where possible – prevent them.
- > Third, that effective long-term planning is essential to delivering the comprehensive response needed.

A 2018 study on the Economics of Early Response to drought crises, funded by USAID, found that greater investment in earlier response and longer-term resilience building measures would yield benefits of US\$2.8 for every US\$1 spent, saving billions of dollars for international humanitarian assistance budgets, as well as mitigating income and asset losses for those most affected.

The analysis presented here considers the economics of alternative responses to refugee crises.

2 THEORY OF CHANGE

In order to assess the economics of alternative responses, we must first specify what the alternative expenditure scenarios are, and then consider the relative costs and benefits of those scenarios compared to a counterfactual.

This section outlines an overall Theory of Change (ToC) for the economics of alternative expenditure profiles. In each case, the alternative response is compared with the counterfactual to articulate the change in both the costs and the benefits. This is followed by a summary of some of the key evidence that can help to support this ToC.

Importantly, the ToC for refugees is distinctly different to the ToC for other types of humanitarian crises. In the case of natural disasters, for the most part it is possible to mitigate some of the impact of a crisis on those affected by acting early and investing in mitigation activities. In the case of conflict – and specifically refugees – once those affected have been forced to cross a border there are no early action activities that can be undertaken to mitigate losses, as asset and production potential have been left behind. Rather, the focus is very much forward-looking, requiring investment first in providing access to basic services, and then investing in alternative expenditures to ongoing encampment.

Within this context, the theory of change compares three overall scenarios:

1) Counterfactual

The counterfactual is a **traditional humanitarian response** to refugee crises. It is assumed that this response is 'late', with funding arriving after the initial onset of a refugee influx. Funding is assumed to decline over time, with minimal investment in durable long-term solutions or self-reliance.

¹ CGDP & IRC Airbel Center, Innovative Financing for Future Refugee Crises ToR, 2018

2) **An earlier and sustained humanitarian response**

An influx of migrants requires a rapid humanitarian response with basic needs. It is assumed that:

- access to, and disbursement of funding, is done more quickly as a result of pre-defined triggers and contracts, with pre-defined organizations/entities who pay out and who respond;
- humanitarian assistance is assumed to be provided and to continue in full;
- costs are lower due to prepositioning; and
- any negative impact on beneficiaries of a delayed response is minimised.

3) **A more proactive response to self-reliance and integration**

A proactive approach to refugee self-reliance and investment in host communities is undertaken, following shortly after the immediate humanitarian response. This could be funded through “pre-positioned” policy architectures, with funding aligned against national development plans.

3 **EXISTING EVIDENCE**

The existing evidence base is very slim. It is clear from existing literature that we have little systematic evidence on the impact of migration on a refugee, and therefore it is even harder to measure what the change in that impact would be with an alternative response. It is also repeatedly cited that the impact of increased self-reliance and host country support has both winners and losers, and therefore costs and benefits will be differentiated.

This section highlights some of the evidence that does exist, simultaneously indicating some of the substantial gaps in the knowledge base.

An earlier and more sustained humanitarian response

Responding more quickly in the initial stages of a refugee influx is likely to substantially reduce the costs associated with response. First, significant procurement cost savings can be realised where goods can be pre-positioned and bought during times of the year that optimise prices. Second, the speed of response can avoid significant losses – such as malnutrition, education and health losses, and GBV and related losses, by ensuring that refugees have access to basic services and protection as quickly as possible.

The evidence gathered for this report suggests that, in large scale/highly visible refugee crises, humanitarian assistance tends to arrive quickly and on time, and therefore losses are likely to be minimised. However, there was no evidence to indicate the procurement timeline for response, though it is highly likely that these responses required emergency procurement that was costly. Anecdotal evidence suggests that the speed of response that is present in highly visible crises is likely not the case for smaller scale or less visible influxes, where funding flows tend to be late.

There is also a duration challenge, that seems to be common to all types of refugee crises (regardless of size/visibility), whereby funding that arrives at the early stages of a crisis tends to dissipate over time as awareness around the crisis suffers from donor fatigue and loss of visibility. Further, the data clearly shows that funding requirements are typically under-met, by quite substantial margins. Therefore, the evidence strongly suggests that there is an inherent lack of funding for consistent humanitarian response, leading to cuts in rations in refugee camps and a decline in provision of basic services, both of which will lead to losses.

In economic terms, we want to estimate the cost of a lack of timely funding, whether at the start of a crisis or further into a crisis. For this analysis, we rely on data on the cost differential between procuring humanitarian assistance in a pre-determined and pro-active manner, as compared with procuring supplies on an emergency basis.

- > Using data from WFP for the economics of early response studies, the decrease in the cost of response as a result of procuring goods early in response to humanitarian crises in four countries² decreased by between 11% and 45%.³
- > A UNICEF/WFP study (funded by DFID) found that emergency preparedness investments (in Chad, Pakistan and Madagascar, representing both conflict and natural disasters) saved up to 50% on the cost of response.⁴
- > WFP's import parity approach works by comparing local and international sourcing costs and delivery times for food in response to a crisis. An analysis of the price differences between the lowest and next-best quotes from suppliers for more than one third of all of WFP's 2010 food procurement expenditure suggests that the import parity approach led to savings of between 23 and 33 percent (at least US\$99 million) of the cost of commodities.⁵

In real terms, it is likely that the impact of a late/declining response is much higher, as the economic impact of a lack of food and basic services can be far greater. When rations are cut, refugees suffer through a lack of adequate and nutritious foods, intensification of disease outbreaks, as well as psycho-social impacts, that cannot be quantified. When aid declines in camps, many refugees migrate in search of better conditions, as has been highlighted so acutely in the Syria crisis.

The cost of migration is likely to be significantly higher in real terms than the cost of providing sufficient and consistent aid. For example, aid packages cost approximately US\$300 per person annually to provide for basic needs in the camps outside of Syria. Based on the cost of aid in Greece, it is estimated that the cost per person of providing humanitarian support to those who made it across the Mediterranean is closer to US\$520. However, the bulk of the funding spent in Greece went to refugees who were stranded when Macedonia closed its border, shutting down the route through the Balkans that refugees were using to access Europe. An estimate of the cost for responding to those who were stranded puts the figure significantly higher, at US\$14k per person.⁶ An assessment of the full economic cost of onward migration would also account for the loss of life, which would push this figure significantly higher.

More proactive development response

A more proactive development response is one that invests in self-reliance and host communities to find sustained solutions outside of indefinite encampment.

- > **Costs:** In addition to any immediate response to refugee basic needs, this scenario would assume the additional cost of creating and funding an integrated response plan or compact (or similar). Costs could include investment in infrastructure and services, job creation and skills training, formal registration of refugees for work permits, policy reform, etc.
- > **The benefits** are harder to measure. The evidence is clear that the impacts on refugees and host communities are very heterogeneous, with winners and losers in every category of impact, and therefore it is difficult to predict a generic Theory of Change. A 2012 World Bank study reviewed the evidence on the impacts and costs of forced displacement, and found that the literature on the costs and benefits of displacement is "largely qualitative, case specific, limited to a small array of indicators

² Kenya, Ethiopia, Somalia and Niger

³ Cabot Venton et al (2013). "The Economics of Early Response and Resilience" DFID, UK; Cabot Venton (2018). "The Economics of Resilience". USAID, Washington DC.

⁴ UNICEF/WFP (2015). "UNICEF/WFP Return on Investment for Emergency Preparedness Study: Final Report". Boston Consulting Group.

⁵ WFP (2011). "Efficiency at WFP" Executive Board Second Regular Session

⁶ <https://www.newsdeeply.com/refugees/articles/2017/03/06/the-refugee-archipelago-the-inside-story-of-what-went-wrong-in-greece>

and neglects comparative methodology. The paucity of quantitative and economic analysis is notable. Data sets are very limited and rely on non-random, small population samples.”⁷

Table 1 below considers some of the costs and benefits that could arise, demonstrating that there can be both winners and losers. This is important to consider in any analysis as an overall benefit to cost ratio can be misleading by masking differences between groups within the analysis.

Table 1 Costs and Benefits of a more proactive development response

Costs	Benefits
<ul style="list-style-type: none"> • Can impose a substantial economic burden on public infrastructure/services • Can have negative effects on wages and employment • Can cause upward pressure on local prices particularly where markets are not well integrated 	<ul style="list-style-type: none"> • Refugees bring skills that build human capital, markets • increase levels of trade, employment opportunities • Influx of aid can increase market activity, stabilize prices, and bring multiplier effects, boost in GDP

One of the few exceptions to this paucity of analysis is a 2016 World Bank/UNHCR study⁸ that assessed the effect of the Kakuma refugee camp on the host community in Turkana, Northern Kenya. It also simulates the impact of four different response scenarios on market outcomes – encampment, partial integration, full integration and decampment. The key findings from the study are as follows:

- > The refugee presence in Kakuma has an overall beneficial and permanent impact on Turkana’s economy, **boosting Turkana’s Gross Regional Product (GRP) by over 3 percent and increasing total employment by about 3 percent.** However, these impacts are nuanced, and concentrated both spatially and temporally, with certain characteristics of the economy aggravating or mitigating them. Activities in non-tradable sectors benefit, but those in the tradable sectors don’t. Households with access to small businesses and farm incomes appear to be better buffered from short term shocks, while wage-earner and animal-selling households suffer more.
- > Economic integration trumps decampment (the sudden closure of the camp). **Economic integration increases per capita host incomes by a (non-trivial) 6 percent.** The study assesses market-based welfare changes through developing a multi-sector general equilibrium model and an empirical approach that simulates the market-based effects of decampment, ongoing encampment, and full integration. The gains last for over 2 decades.

A second relevant study from Rwanda analyses the economic impacts of cash and in-kind food aid supplied to refugees on host-country economies within a 10-km radius of three Congolese refugee camps⁹. Two of the camps received a cash transfer and one camp received an in-kind transfer. Under Rwanda’s rules, refugees are free to interact with the host country economy, and Congolese refugees and Rwandans speak the same language, both of which facilitate the ability of refugees to be a part of the local economy.

Simulations using Monte Carlo methods reveal that cash aid to refugees creates significant positive income spillovers to host country businesses and households. An additional adult refugee receiving cash aid increases annual real income in the local economy by US\$205 to US\$253. These are equivalent to 63% and 96% of the average host-country per-capita income around the camps, and are significantly more than the

⁷ Fiddian-Qasmiyeh, E., I. Ruiz, C. Vargas-Silva and R. Zetter (2012), *Assessing the Impacts and Costs of Forced Displacement: Volume 1. A Mixed Methods Approach* World Bank, Washington, DC.

⁸ World Bank/UNHCR (2016), *Yes in My Backyard: The economics of refugees and their social dynamics in Kakuma, Kenya*

⁹ J. Edward Taylor, et al (2016)

US\$126/US\$120 value of assistance provided, respectively (equivalent to a 63% and 110% increase in value beyond the value of the transfer).

The income spillover in the local economy (beyond the transfer itself) is estimated at between US\$70 and US\$126 per refugee receiving cash assistance, and US\$25 per refugee receiving in-kind assistance. Trade between the local economy and the rest of Rwanda increases by an additional US\$49 to US\$55 for cash transfers, and US\$35 for in-kind transfers.

The analysis then simulates the impact of a US\$1 increase in the value of cash or in-kind transfers, and finds that each additional dollar in aid to refugees in the two cash camps increases income in the local economy by US\$1.51 and US\$1.95. The difference between the multiplier and the dollar transferred (US\$0.51 for Camp 1, US\$0.95 for Camp 2) represents the real income spillover effect of a dollar of additional cash aid in the local economy. Trade with the rest of Rwanda increases by US\$0.40 to US\$0.43. The local income multiplier for the in-kind camp is US\$1.19, and the impact on trade with the rest of Rwanda is US\$0.29.

4 ECONOMICS OF ALTERNATIVE EXPENDITURES - REFUGEES

As stated at the outset, refugees are now, on average, displaced for over 12 years. Refugee crises are almost never short term, and as a result there is a very strong case for investing in long term planning to move towards self-reliance and/or integration.

In order to assess the economics of alternative expenditures, we evaluate 5 of the largest and longest running refugee crises globally – namely Afghanistan, Sudan, South Sudan, Democratic Republic of Congo (DRC), and Somalia. Because Sudan and South Sudan were the same country prior to 2011, we combine data for the two countries across all years of analysis.

UNHCR data is used to compile historic data on the number of refugees arising from each of these five countries between 1997 and 2017. We use data on the average cost per person of humanitarian response based on the humanitarian response plans (HRP) for each country of origin for the most recent year available. Clearly this amount can fluctuate, as the cost of response in host countries could be higher or lower, though we consider that the cost in the HRP provides a reasonable and robust proxy. Further, in recent years, more comprehensive programming for longer term planning has no doubt been costed in, and would further skew the results here. However, a review of the HRPs in detail suggests that this type of activity is rarely included, and where it is included these sums are nominal. We use the cost per person based on the HRP to estimate the amount of money required to provide consistent humanitarian assistance in each of these five countries for refugee assistance alone (IDPs will be addressed in a subsequent section), over the last 20 years.

Table 2 Summary of Refugee Data for Five Countries, 1997-2017

Country	Total Number of Refugees, 1997-2017	Cost per person, Humanitarian Assistance	Total Cost, US\$
Afghanistan	Average: 2.8 million per year Total number, 20 years: 58 million	\$154	\$8,940 million
Sudan/ South Sudan	Average: 832k per year Total number, 20 years: 17.5 million	\$233/\$287	\$4,763 million
DRC	Average: 470k per year Total number, 20 years: 9.9 million	\$152	\$1,505 million
Somalia	Average: 727k per year Total number, 20 years: 15.3 million	\$319	\$4,870 million
TOTAL			\$20,077 million

The cost of providing a full humanitarian response to the refugee crises arising out of these five countries, over the last 20 years, is estimated at US\$20 billion (in 2017 dollars). The question then arises – if we were standing

back in 1997, and knew that we would spend US\$20 billion over the following two decades on refugees from these five countries, how would we spend that money differently?

The evidence base does not allow for a robust or in-depth analysis. However, using some of the evidence presented above, we can at least make an estimate of the overall potential magnitude of change.

Speed/Duration Challenge

The evidence highlighted in the previous section suggests that early and sustained action could save between 10% and 50% on the cost of procurement of goods to address these crises. These savings are typically made on the cost of procurement and transport. Support costs across the UN humanitarian system typically represent 20% of total operational costs, with procurement and transport accounting for the remaining 80%.¹⁰ Applying this ratio to the US\$20,077 million spent on humanitarian assistance estimated above suggests that approximately US\$16,062 million was procurement and transport related. We assume savings of 10%, to be very conservative, which equates to **a procurement cost savings of approximately US\$1.6 billion over 20 years.**

The 'real' cost of a lack of funding to provide for basic needs is likely to be significantly higher, as a lack of nutrition, education and safety can have long-term effects with economic consequences that far exceed what we can estimate here. Of course, the degree to which cost savings can be achieved across different years and in different contexts, will vary substantially, and therefore these figures are indicative only.

Shape Challenge

Even more compelling is the case for investing in greater self-reliance and integration of refugee populations into local economies. The Kenya study estimates that the refugee population in Kakuma has boosted regional GRP by over 3%, increased total employment by about 3%, and that full integration would increase host incomes by 6%. It is not possible, however, to apply these findings to our analysis, as this would require detailed data on regional GRP, employment and host incomes for each of the hosting countries.

The figures from Rwanda are directly relevant for one of our five countries as they relate to Congolese refugees, and may act as a proxy for the other countries until more specific data is available.

The analysis finds that each additional dollar in aid to refugees in the three camps creates an additional income spillover effect of US\$0.51 for Camp1, US\$0.95 for Camp2 (both cash), and an increase in trade of US\$0.40 to US\$0.43, resulting in a total multiplier effect of US\$0.91 and US\$1.38. In the in-kind camp, the income spillover effect is US\$0.19, with an increase in trade of US\$0.29, equivalent to a total increase of US\$0.48 for every dollar spent.

These multiplier effects are only relevant to the portion of humanitarian assistance that is transferred directly as food/cash. (They may also be relevant for other goods such as shelter or water, but those effects were not tested.) Therefore, the estimated total cost of humanitarian assistance was reduced to represent the portion of the budget spent on food/cash as per the most recent HRP for each country.

However, the required food aid budget in the HRP represents not only the direct transfer to refugees, but also the cost of delivering that transfer. Multiplier effects are only relevant for the portion of the transfer that is actually given to refugees. WFP figures for 2015 (the most recent publicly available) state that out of a total budget of US\$2.63 billion, US\$587 million was spent on goods and services, and US\$974 million was spent on logistics. The remaining US\$1.07 billion was spent on food commodities delivered to beneficiaries¹¹, representing 41% of the total food budget. The estimated budget for the food sector is therefore reduced by

¹⁰ Falasca, M. & Zobel, C. W. (2011). "A two-stage procurement model for humanitarian relief supply chains", *Journal of Humanitarian Logistics and Supply Chain Management*, 1 (2), 151-169. It should be noted that similar figures are cited by the WFP Management Plan 2014-2016. p.6.

¹¹ WFP (n.d.). "Doing business with the United Nations World Food Programme: International Food, Goods, and Services Procurement.

59% to estimate the total value of actual transfers of commodities to beneficiaries. Cash is typically much less expensive to deliver, and while it is not incorporated into this analysis, using equivalent estimates for cash would only increase the magnitude of the multiplier effect.

The local economy multipliers from the Rwanda study are applied to the portion of the budget estimated to be actually transferred as food/cash to refugees, based on the data for the last 20 years, and assuming that assistance was provided in full to respond to need. Based on these figures, **food/cash transfers to refugees in the five study countries over the last 20 years could have generated between US\$2.8 and US\$4.2 billion in local economy multiplier effects in the case of cash, and US\$1.5 billion in the case of in-kind.** These benefits require, however, that, as in Rwanda, refugees are free to interact with the local economy. This has important policy implications around the need for frameworks that allow greater engagement and investment in self-reliance between hosts and refugees.

Clearly there are many ways that the “shape challenge” can be addressed – with refugee engagement in the local economy only one part of a comprehensive refugee plan. However, in the absence of more robust and systematic data, even multiplier effects alone can yield significant returns.

5 ECONOMICS OF ALTERNATIVE EXPENDITURES – IDPS

The focus of this study is on refugees – people who have crossed a border to flee persecution and now reside in a new country. But of course this is only one part of the story, and the refugee crisis is dynamically interlinked with the IDP crisis in the country of origin. A much more robust body of evidence exists that evaluates the economics of preventing conflict in the first place.

In order to give a sense of the total magnitude of the IDP crisis in these five countries, comparable to the analysis presented above for refugees, the same set of calculations on the ‘real’ cost of response for IDPs over the last 20 years are presented in Table 3. The IDP crisis is of a similar scale, estimated at a total cost of US\$19.3 billion, bringing the total cost of response for these five countries close to US\$40 billion for the last 20 years.

Table 3 Summary of IDP Data for Five Countries, 1997-2017

Country	Total Number of IDPs, 1997-2017	Cost per person, Humanitarian Assistance	Total Cost, US\$
Afghanistan	Average: 586k per year Total number, 20 years: 12.3 million	\$154	\$1,893 million
Sudan/ South Sudan	Average: 1.5 million per year Total number, 20 years: 32.2 million	\$233/\$287	\$8,368 million
DRC	Average: 1.2 million per year Total number, 20 years: 25.9 million	\$152	\$3,944 million
Somalia	Average: 756k per year Total number, 20 years: 15.9 million	\$319	\$5,068 million
TOTAL			\$19,272 million

A recent 2017 study commissioned by the World Bank assessed the costs and benefits of preventing conflict, and found that investment in preventing conflict would yield returns of US\$16 for every US\$1 spent (see summary of findings in Table 4 below).¹² Using a model and three scenarios (pessimistic, neutral and optimistic), the study estimates the effects of prevention in terms of avoided economic damages, loss of life

¹² Mueller, H. 2017. “How Much Is Prevention Worth?” Background paper for the United Nations–World Bank Flagship Study, Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict, World Bank, Washington, DC.

avoided, and cost savings from post-conflict reconstruction and peacekeeping. The study finds that prevention of conflict would save between US\$5 and US\$70 billion per year globally (depending on the scenario considered). The study further finds that investment in a prevention system would lower the number of refugees by about 1 million after five years, in the neutral scenario. After 15 years, this number increases to 1.5 million.

Table 4 Summary of Findings, Economics of Preventing Violent Conflict

Assumption	Optimistic	Neutral	Pessimistic
Lost GDP growth per conflict year (% points)	5.2	3.9	2.5
Cost of prevention ^a	100	500	1,000
Effectiveness of prevention (%)	75	50	25
Prevented damage ^a	68,736	34,251	9,377
Saved costs ^b	1,523	1,176	698
Additional cost ^c	-352	-2,118	-5,247
Net savings per year	69,907	33,309	4,828

Note: All figures for spending, damages, and costs are in US\$, millions per year. GDP = gross domestic product.
a. The economic damage and deaths prevented.
b. Costs saved from peacekeeping and humanitarian assistance that become unnecessary with prevention.
c. Additional costs needed for prevention efforts.

One component of the Comprehensive Refugee Response Framework (CRRP) is to foster conditions that enable refugees to return to their home countries. This can also be seen as one response to the “shape challenge”. With returns on investment of US\$16:1, and a significant reduction in the number of refugees, investment in preventing conflict in the first place seems to be economically justified.